

Minority-Owned Businesses

US Dept. of Commerce Minority Business Development Agency, *Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs*¹

Inadequate access to financial capital continues to be a particularly important constraint limiting the growth of minority-owned businesses. The latest nationally representative data on the financing of minority firms indicates large disparities in access to financial capital. Minority-owned businesses are found to pay higher interest rates on loans. They are also more likely to be denied credit, and are less likely to apply for loans because they fear their applications will be denied. Further, minority-owned firms are found to have less than half the average amount of recent equity investments and loans than non-minority firms even among firms with \$500,000 or more in annual gross receipts, and also invest substantially less capital at startup and in the first few years of existence than non-minority firms.”

Key Findings:

- Minority-Owned Firms Are Less Likely to Receive Loans
- Minority-Owned Firms Receive Lower Loan Amounts
- Minority-Owned Firms Are More Likely to Be Denied Loans
- Minority-Owned Firms Are More Likely to Not Apply for Loans Due to Rejection Fear
- Minority-Owned Firms Pay Higher Interest Rates on Business Loans
- Minority-Owned Firms Receive Smaller Equity Investments
- Venture Capital Funds Focused on Minority-Owned Firm Investments Are Competitive
- Disparities in Access to Financial Capital Grow after First Year of Operations

Small Business Federal Reserve Banks, *2016 Small Business Credit Survey: Report on Minority-Owned Firms*²

Key findings:

- Black-owned firm application rates for new funding are 10 percentage points higher than white-owned firms, but their approval rates are 19 percentage points lower.
- Forty percent of nonapplicant black-owned firms did not apply for financing because they were discouraged (i.e., they did not think they would be approved), compared with 14% of white-owned firms and 21% of Hispanic- and Asian-owned firms.

¹ <https://www.theinstitutenc.org/wp-content/uploads/2018/03/DisparitiesinCapitalAccessReport.pdf>

² <https://www.fedsmallbusiness.org/survey/2017/report-on-minority-owned-firms>

- Looking at just firms that were approved for at least some financing, when comparing minority- and nonminority-owned firms with good personal and/or business credit scores, 40% of minority-owned firms received full amount sought compared to 68% of nonminority-owned firms.
- Black-owned firms are most concentrated in the healthcare and education industry (24%). Asian-owned firms are most concentrated in the professional services and real estate industry (28%). Hispanic-owned firms are most concentrated in the nonmanufacturing goods production and associated services industry, which includes building trades and construction (27%).
- Forty-two percent of black-owned firms, 21% of Asian-owned firms, and 24% of Hispanic-owned firms are smaller than \$100k in revenue size, compared with 17% of white-owned firms.
- Black-owned firms report more credit availability challenges (58% vs. 32%) and difficulty obtaining funds for expansion (62% vs. 31%) than white-owned firms—even among firms with revenues more than \$1M (49% vs. 24% and 53% vs. 23%, respectively).
- The use of personal funds is the most common action taken as a result of financial challenges, with 86% of black-owned firms, 77% of Asian-owned firms, 76% of white-owned firms, and 74% of Hispanic-owned firms using this source of financing. This is true even though black business owners tend to have lower personal wealth levels than white business owners.

Journal of Public Policy and Marketing, *Shaping Small Business Lending Policy Through Matched-Pair Mystery Shopping*³

“Testers came to the banks with nearly identical business profiles and strong credit histories to inquire about a small business loan product. [...] We designed the profiles for both the protected and control testers to be well above the threshold of what is acceptable for loan requests; however, the qualifications of the African American testers were superior to those of the Caucasian testers. In other words, on paper, the protected, African American testers were financially better off than the control Caucasian tester. Thus, the experience of African Americans seemingly should be more positive than the experience of the Caucasians. This conservative test helps identify the presence, if any, of disparate and discriminatory treatment in the test condition.”

“Comparing the descriptions from the African American testers with those from the Caucasian testers revealed that African American testers experienced unequal, substantively worse treatment than their Caucasian counterparts.

³ Bone, S. A., Christensen, G. L., Williams, J. D., Adams, S., Lederer, A., & Lubin, P. C. (2019). Shaping Small Business Lending Policy Through Matched-Pair Mystery Shopping. *Journal of Public Policy & Marketing*, 38(3), 391–399. <https://doi.org/10.1177/0743915618820561>

“The results also reveal differences in the level of encouragement and assistance offered to the African American testers. Compared with their Caucasian counterparts, African American testers were less frequently offered a future appointment, offered help to complete the loan application, asked how they could be helped, or thanked for coming in to the bank.”

Women-Owned Businesses

The State of Online Small Business Lending: Spotlight on Women Entrepreneurs by Fundera⁴

Key Findings:

- Women get approved for debt funding at a lower rate than men, and are likely to pay higher rates and receive less debt funding than male counterparts, approximately 80% of the funding men receive on average
- Women are less likely to receive venture capital investment, women received only 7% of venture capital investment in the US and 10% worldwide (between 2010 and 2015) despite women owning a third of small businesses in the US
- Women entrepreneurs are systematically offered smaller loans, shorter-term loans, and pay significantly higher interest rates than men, rates higher by 5.4 to 6.4 percentage points on average
- The Small Business Administration (SBA) often claims that SBA loans are 3-5 times more likely to go to women or minority owned businesses but even amongst SBA loans, women receive 2.5 times less money than men do
 - Women receive, on average, about \$60,000 and men receive \$156,000
- Women owned businesses account for only 4.5% of all dollars lent to small businesses

⁴ https://storage.pardot.com/167752/9896/Fundera_State_of_Online_Small_Business_Lending_Q2_2016.pdf

Veterans

U.S. Small Business Administration, *FINANCING THEIR FUTURE: Veteran Entrepreneurs and Capital Access*⁵

Key Findings:

- Data from the Federal Reserve Banks' Small Business Credit Survey comparing veteran and nonveteran business borrowers found considerable evidence that veteran business owners face more difficulty in accessing capital than nonveteran business owners.

Virginia⁶

- There are nearly 767,000 small businesses in Virginia, accounting for 99.5% of Virginia businesses and 47.1% of Virginia employees
- Demographics
 - Nearly 8% of minority male Virginians are self-employed
 - Nearly 6% of minority female Virginians are self-employed
 - Nearly 6% of black male Virginians are self-employed
 - Nearly 4% of black female Virginians are self-employed
 - Just over 8% of Hispanic male Virginians are self-employed
 - Nearly 8% of Hispanic female Virginians are self-employed
 - About 11% of Asian male Virginians are self-employed
 - About 9% of Asian female Virginians are self-employed
- 10.5-22% of Albemarle County citizens are self-employed; this is a high proportion
 - On average, just under 10% of men in Virginia are self-employed and about 7% of women
- American Express has classified Virginia as one of the top 10 States 'in which women-owned businesses have the highest employment viability,' ranking number 5 in 2017⁷

Albemarle:

- There are **259** small businesses in Albemarle County and Charlottesville who retain the Virginia Small, Women-owned, and Minority-owned Businesses (SWaM) certification.⁸
 - There are likely women and minority owned businesses in Albemarle who have not acquired this certification but this number remains a good proxy measure and should be treated as a *minimum*.

⁵<https://www.newyorkfed.org/medialibrary/media/smallbusiness/2017/Report-on-Veteran-Entrepreneurs-and-Capital-Access.pdf>

⁶<https://cdn.advocacy.sba.gov/wp-content/uploads/2020/06/04144231/2020-Small-Business-Economic-Profile-VA.pdf>

⁷https://about.americanexpress.com/sites/americanexpress.newshq.businesswire.com/files/doc_library/file/2017_SWOB_Report_-FINAL.pdf

⁸<https://directory.sbsd.virginia.gov/#/directory>